

October 5, 2016

Kevan Bryan, Finance Director
Yellowstone County
Courthouse 4th Floor
217 N. 27th St.
Billings, MT 59101

Dear Kevan and the Board of County Commissioners:

#133798

We are pleased to confirm our understanding of the services we are to provide Yellowstone County for the year ended June 30, 2016. We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, including the related notes to the financial statements, which collectively comprise the basic financial statements, of Yellowstone County as of and for the year ended June 30, 2016. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement Yellowstone County's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to Yellowstone County's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- 1) Management's Discussion and Analysis.
- 2) Employee Group Benefits Plan – Other Post-Employment Benefits (OPEB)
- 3) Schedule of Proportionate Share of the Net Pension Liability & Schedule of Contributions

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information.

- 1) Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Major Governmental Debt Service and Capital Projects Funds
- 2) Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Nonmajor Governmental Funds
- 3) Combining Fund Statements – Nonmajor Governmental and Internal Service Funds
- 4) Introductory Section and Statistical Section of the Financial Statement

Audit Objectives

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of the accounting records and other procedures we consider necessary to enable us to express such opinions. We will issue a written report upon completion of our audit of Yellowstone County's financial statements. Our report will be addressed to the Board of County Commissioners of Yellowstone County. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue reports, or withdraw from this engagement.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to Yellowstone County or to acts by management or employees acting on behalf of the County.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that comes to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Control

Our audit will include obtaining an understanding of Yellowstone County and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify deficiencies in internal control. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards,

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of Yellowstone County's compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance, and we will not express such an opinion.

Other Services

We will also assist in preparing the financial statements and related notes of Yellowstone County in conformity with U.S. generally accepted accounting principles based on information provided by you. We will perform the services in accordance with applicable professional standards. The other services are limited to the financial statements and related notes services previously defined. We, in our sole professional judgment, reserve the right to refuse to perform any procedure or take any action that could be construed as assuming management responsibilities.

Management Responsibilities

Management is responsible for establishing and maintaining effective internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements of the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Yellowstone County and the respective changes in financial position and, where applicable, cash flows in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within Yellowstone County from whom we determine it necessary to obtain audit evidence.

Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting Yellowstone County involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting Yellowstone County received in communications from employees, former employees, regulators, or others. In addition, you are responsible for identifying and ensuring that Yellowstone County complies with applicable laws and regulations.

You are responsible for the preparation of the supplementary information in conformity with U.S. generally accepted accounting principles. You agree to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. You also agree to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Your responsibilities include acknowledging to us in the representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

You agree to assume all management responsibilities for the financial statements preparation services and related notes, and any other nonaudit services we provide; oversee the services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

Engagement Administration, Fees, and Other

We understand that your employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any documents selected by us for testing.

The audit documentation for this engagement is the property of Anderson ZurMuehlen & Co., P.C. (Anderson ZurMuehlen) and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to any federal agency, or its designee. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of Anderson ZurMuehlen personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend or decide to distribute the copies or information contained therein to others, including other governmental agencies.

We expect to begin our audit in October 2016 and to issue our reports no later than December 31, 2016. Stefani S. Freese is the engagement partner and is responsible for supervising the engagement and signing the reports or authorizing another individual to sign them.

We estimate our fees for this engagement will not exceed \$42,750 for the year ended June 30, 2016.

Our proposed fees are based on the following assumptions:

1. Anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit.
2. There are no major changes in your organizational structure. Examples of major changes include significant mergers, new business units, and new lines of businesses.
3. There are no unanticipated changes in the scope of our work and/or the incomplete or untimely receipt by us of the information on the client request list.
4. There are no new audit standards that require significant audit resources.
5. The accounting records are maintained in a reasonable manner, with appropriate supporting documentation provided as requested.

Fees for our services will be billed as our work progresses and are due upon presentation. If either party elects to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report(s). You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

In the event Anderson ZurMuehlen is required to respond to a subpoena, summons, court order, or other legal process for the production of documents and/or testimony relative to information we obtained and/or prepared during the course of this engagement, you agree to compensate the Firm at its hourly rates for the time it expends in connection with such response, and to reimburse us for all out-of-pocket expenses incurred.

The parties to this engagement agree that any dispute that may arise regarding the meaning, performance or enforcement of this engagement (except actions by us to enforce payment of our professional invoices), will, prior to resorting to litigation, be submitted to mediation, upon a written request to mediate given by either party. Any mediation initiated as a result of this engagement shall be administered within the county of Lewis and Clark, Montana. The costs of any mediation proceeding shall be shared equally by the parties. The results of any such mediation shall be binding only upon agreement of each party to be so bound. Should mediation be unsuccessful, the parties reserve the right to pursue litigation in a court of competent jurisdiction in Lewis and Clark County.

In connection with this engagement, we may communicate with you or others via email transmission, and by signing this letter you authorize us to do so. As emails can be intercepted and read, disclosed, or otherwise used or communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed and only to such parties, we cannot guarantee or warrant that emails from us will be properly delivered and read only by the addressee. You agree that we shall have no liability for any loss or damage resulting from the use of email transmissions. If requested we'll provide a secure portal for the transmission of confidential information.

Our Firm's record retention policy follows guidelines provided by the American Institute of Certified Public Accountants. Original client documents and files are returned to you for safekeeping. Anderson ZurMuehlen generally retains copies of client files and documents for seven (7) years in support of the work completed. Beyond the 7 year retention period, files will be destroyed unless a written request is provided to us by you. This letter constitutes the terms and mutual understanding of our arrangement, superseding all proposals oral and written and all other communications.

We appreciate the opportunity to be of service to Yellowstone County and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign and return a copy to us.

Very truly yours,

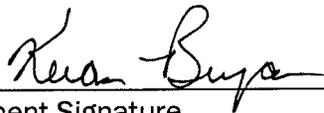
ANDERSON ZURMUEHLEN & CO., P.C.



Stefani S. Freese, Shareholder

RESPONSE:

This letter correctly sets forth the understanding of Yellowstone County.

✓ 

Management Signature

✓ Finance + Budget Director

Title

✓ 10/11/16

Date

✓ 

Governance Signature

✓ Commissioner

Title

✓ 10/11/16

Date